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FISCAL IMPACT REPORT

ORIGINAL DATE 2/27/07

SPONSOR Vigil LAST UPDATED _____ HB 1158

SHORT TITLE Increase Liquor Excise Tax SB _____

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	\$69,216.0	\$70,600.0	Recurring	General Fund
	\$2,633.0	\$2,686.0	Recurring	Local Governments
	\$34,483.0	\$35,173.0	Recurring	DWI Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 1158 increases the excise taxes on different types of alcoholic beverages:

	Current Law	HB1158	Difference (\$)	Difference (%)
Spiritous liquors	\$ 1.60	\$ 4.98	\$ 3.38	211%
Beer (except micro)	0.41	1.85	\$ 1.44	351%
Wine (except small grower)	0.45	1.46	\$ 1.01	224%
Fortified wine	1.50	2.77	\$ 1.27	85%
Beer (Micro)	0.08	0.08	\$ -	0%
Wine (Small grower) < 80,000 liters	0.10	0.10	\$ -	0%
Wine (Small grower) 80,000 - 560,000 liters	0.20	0.20	\$ -	0%
Cider	0.41	0.41	\$ -	0%

The effective date is July 1, 2007.

FISCAL IMPLICATIONS

The impact of more than doubling of the excise taxes is enormous at over \$100 million. There are three impacts that combine to form the total: increase in the excise tax, increase in gross receipts collected, and a decrease in the consumption of alcohol, either through substitution of the beverages that did not have the tax hiked, less consumption, or increased purchases of non-taxed beverages.

TRD:

The liquor excise is paid by the distributor and is passed through to the consumer in the retail price. Liquor sales are also subject to gross receipts taxes, the state wide average GRT rate is 6.6%. The total GRT increase is approximately \$6.8 million, 60% will be deposited to the General Fund and the remaining 40% distributed to local governments.

The price increase will have an elasticity effect and decrease quantity sold. The table below demonstrates the elasticity effect of the tax increase by liquor base on volume estimates for fiscal year 2008.

	Spirits	Fortified Wine	Beer
Current	\$1.60	\$1.50	\$0.41
Proposed	\$4.98	\$2.77	\$1.85
Tax increase	\$3.38	\$1.27	\$1.44
Retail Price	\$27.00	\$8.00	\$6.50
Price Increase	12.52%	15.88%	22.15%
Elasticity	(0.39)	(0.58)	(0.16)
Volumes Decrease	-4.88%	-9.21%	-3.54%

Source: TRD

The table below calculates that increase in liquor excise tax collections a based on volume for fiscal year 2008. The quantity decrease has been calculated and the proposed tax rates applied to the net volumes. Spirits and fortified wine volumes are in liters, beer is gallons.

<i>In Thousands</i>	Spirits	Fortified Wine	Beer	Total
Volumes	9,859	100	50,000	
Elasticity Effect	(481)	(9)	(1,772)	
Net Volumes	9,378	91	48,228	
Current Revenue	\$15,774	\$150	\$20,500	\$36,424
Proposed Revenue	\$46,701	\$251	\$89,221	\$136,173
Net Increase	\$30,926	\$101	\$68,721	\$99,749

Source: TRD

SIGNIFICANT ISSUES

As TRD has reported, this would reduce the consumption of these items. Whether it results in less consumption of alcoholic beverages is uncertain. While most alcoholic beverages have few substitutes, wine can be ordered from other states over the internet and so this increase may drive up online purchases which generally do not result in tax revenues (these purchases are not necessarily tax-free but the collection is difficult to impossible).

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